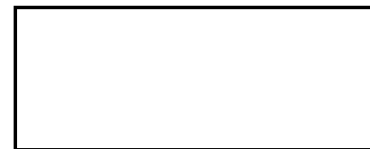


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This publication has been prepared by the China branches of the Far East Division of the Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Chi on Tour

Chi Peng-fei's trip to London, Paris, Tehran, and Karachi represents a drastically shortened version of the grand tour of most Eastern and Western European capitals and almost all North African capitals originally scheduled for earlier this year. In making London his first stop, Chi appeared to signal that Peking now finds more in common with the UK's attitudes toward Washington, NATO and the European Communities than those of France, its oldest friend in Europe.

A similar shift was evident in the attention paid to Iran, which suggests that at present China sees little profit in meddling in Arab politics. Not surprisingly, the common thread in Chi's conversations and speeches was the necessity to be vigilant against the Soviet threat.

A Lecture on Moscow

In Britain and France, Chi reiterated the line the Chinese have taken almost every time they have met with Europeans over the past year: "obsessive fear" of the Soviets, a charge that Moscow's real aim is world domination, and a claim that the Soviets hoped to achieve their goal piecemeal through a policy of "fraudulent detente." In this context, Chi said that force reductions talks were even more dangerous than the forthcoming conference on European security, and that both were aimed at reducing Western vigilance and ultimately altering the balance of forces in Europe in favor of the Soviets. Unsaid, but obviously in Chi's thinking, was the proposition that such an alteration would leave Moscow free to shift its military weight toward the Chinese border.

...and a Boost for Iran

Chi's three-day stop in Tehran and the events surrounding it throw sharp new light on Peking's views of its equities in the Middle East. His speeches supported Iran's policy of non-intervention by outside powers in the Persian Gulf, concurred in the strengthening of Iranian defenses "in view of the prevailing situation in the region," and endorsed the Iranian-supported proposal for declaring the Indian Ocean a zone of peace. With the USSR obviously in mind, Chi warned against the danger of big power hegemony in the area and indicated that China regards Iran's military strength as important to offset Moscow's efforts to advance its influence via Iraq and India.

Chi's arrival was preceded by unusually moderate treatment in the Chinese press of the meeting of the CENTO council of ministers in Tehran. NCNA emphasized that discussion at the meeting centered on the danger of Soviet expansion in the Persian Gulf and Indian Ocean and made the first reference in Chinese media to the Soviet-Iraqi treaty of 1972.

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China's implicit backing for Iran's effort to become the major power in the Persian Gulf is not without probable side effects. Certainly such a course will not improve Peking's relations with Iraq, which have been no more than correct since Baghdad signed the treaty with the USSR. Peking's endorsement of the policies of one of the more conservative regimes in the Middle East probably also signals an end to any but token aid to radical left-wing political movements in the Persian Gulf states. Such a development may already be under way in Oman, where Chinese aid to the Popular Front for the Liberation of Oman and the Arab Gulf apparently has been all but closed out.

...Bolstering Bhutto

Although probably not the main agenda item, Moscow was also very much on Chi's mind during his talks in Karachi with Pakistani President Bhutto and senior government officials. During a banquet speech on 18 June, Chi plainly blamed the Soviets for the "unsettled situation" on the Indian subcontinent while refraining from criticizing New Delhi and Dacca and, in fact, indicating Peking's desire for friendship with both.

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University Enrollment

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In mid-June universities began to register students for the fall term. It promises to be the largest enrollment since the Cultural Revolution.

There are now only about 200,000 students in the universities. The current drive reportedly will add another 150,000. Moreover, universities that have yet to reopen after being closed in 1966 will reportedly be functioning again by September.

The admissions requirements announced in provincial broadcasts suggest a general tightening of enrollment criteria, possibly as a result of guidance passed down by a national education conference held last spring. The broadcasts said that applicants must be tested to certify their academic qualifications. This could signal a return to the stiff national entrance examination used before the Cultural Revolution.

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A new entrance requirement stipulates that applicants must be well-disciplined. This requirement is obviously an attempt to avoid the disciplinary problems of the past few years when unruly students made classroom life all but unbearable for their teachers. Since problem candidates will apparently be denied admission, the new requirement could have a broader impact as well. Undisciplined, young factory workers will be encouraged to moderate their behavior, if they wish to get into a university, and rusticated young people will think twice before returning illegally to the cities.

The broadcasts left no doubt that older workers and older peasants are not welcome. Elements of Mao's educational reforms were specifically designed for their benefit, but the older workers proved to be poorly qualified for university. An age limitation of 25 years is set for most students. The only reference to the enrollment of older workers implied that they will be segregated from the better students.

The present enrollment criteria are in keeping with the moderate educational policies of last year, but they must have ruffled the feathers of the supporters of

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Mao's more radical educational schemes. The enrollment of workers, peasants, and soldiers as university students is one of the "revolutionary new things" from the Cultural Revolution, which currently are being touted in the media. The setback to this particular "new thing" may well have aroused a good deal of political bickering behind the scenes.

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Prospects for Foreign Trade in 1973

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China's foreign trade turnover will probably increase this year by 15 to 20 percent to approximately \$6.7 billion--a new record. As much as half of the expected increase will be the result of the revaluations of major world currencies, but substantial expansion in the real volume of trade with most of China's major trading partners is also expected.

The largest increase in China's trade will be with the US. Sino-US trade will jump from \$90 million last year to about \$600 million this year. The US could surpass Hong Kong, China's number-two trading partner, and will run close to Japan. Peking is expected to import \$550-600 million of US products, compared with exports to the US of only \$50-60 million. The US has become China's primary supplier of farm products; these items will account for the bulk of US exports to China this year. China will also receive Boeing 707 aircraft, synthetic fibers, scrap metals, fertilizer, and equipment for a satellite earth station.

Large imports of agricultural products this year could lead to a substantial deficit--possibly several hundred million dollars--in China's trade with non-Communist countries. To help improve its reserve position

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Chinese authorities have sharply increased prices on export items in strong demand and are emphasizing the development of labor-intensive export industries. In addition, Peking will add a significant new commodity to its export list this year with the shipment of one million tons of crude oil to Japan, worth almost \$30 million.

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Shopping for Dams

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Malian President Moussa Traore arrived in Peking on 20 June. This is the highest level of contact between the two governments since Traore came to power in 1968. During the past few years Peking has made several gestures to improve its relations with Mali. Following an aid pact signed in December 1970, China agreed to help with light industrial and agricultural projects, extend a small amount of budgetary assistance, and provide a moderate amount of military assistance. This March, Peking reportedly provided 25,000 tons of rice on easy terms to help the Malians survive the current disastrous drought.

No doubt the main item on Traore's agenda will be the Manantalli dam, which will cost over \$100 million and which Traore would like the Chinese to build. The Chinese, who have been studying the project for nearly two years, have so far exhibited no enthusiasm for the undertaking.

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Despite Peking's earlier reluctance, it may now seriously consider supporting the project. Construction probably could not start for a year or two, just in time to succeed the Tanzam railroad as a showpiece of Chinese aid in Africa. In addition a promise to undertake such a large hydro-electric and irrigation project at the time of the Sahelian drought might have considerable propaganda value in West Africa.

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The Thoughts of Premier Chou

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Chinese propaganda in recent months has gone out of its way to mention Chou En-lai by name and to quote from his earlier statements. Some of the quotations are without attribution, but others are directly attributed to the premier. Most predate the Cultural Revolution, and one reference goes back to the 1920s. Chou's name and thoughts are used in a variety of contexts, some flattering and others less so. At this point no clear pattern has emerged other than that Chou, for better or worse, is being invoked with increasing regularity.

Chou admitted privately that he had coined the phrase "friendship first, competition second," which has been widely repeated since the ping-pong diplomacy of 1971. Last March, according to the US Consulate General in Hong Kong, NCNA cited Chou's comment on improved Sino-Japanese relations. In a less positive vein, a pamphlet reportedly published in Shanghai in September 1972 contained statements made by Chou in 1955 praising the Boxer Rebellion, but did not attribute them to him. The Consulate General noted that the statements were rather xenophobic and speculated that the pamphlet was meant as a "sly dig" at Chou. Last month, Western diplomats in Peking noted that the Chinese had republished a letter, complete with maps, written by Chou in 1962, which took a hard line on the Sino-Indian border dispute.

Broadcasts to Taiwan have taken pains to polish Chou's image. In April, a former Kuomintang general, who went over to the Communists in 1949, recalled that Chou was concerned about the general's family and, "despite how busy he was," had helped get the general admitted to a school. Radio Peking on 24 May, in a broadcast aimed at Taiwan, noted that books housed in the Peking Library include manuscripts and letters of Marx and Engels, Mao's works, and "magazines edited in Paris by Premier Chou En-lai in his early days."

NCNA on two occasions has pointed out Chou's loyalty to Mao. The news agency noted that Chou had "expounded" on Mao's teachings in a speech on 8 March, International Women's Day. In its 9 June report on Chou's trip to Yenan with high-level North Vietnamese visitors, NCNA described Chou as recounting "with great enthusiasm" Mao's activities during the Yenan period.

Other references to Chou are puzzling. Last March, NCNA quoted without attribution Chou's favorable comments in 1963 on "learning from Lei Feng," an emulation campaign usually associated with the disgraced Lin Biao. On 9 May, NCNA recalled that Chou had visited Sinkiang Province in July 1965 and had encouraged rusticated youth to devote their lives to building up the border areas. The down-to-the-countryside campaign was started last year, a move generally

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[redacted]

credited to Chou, but has come back strong this year. Quoting Chou on the virtues of rustication may have been either an attempt to lend respectability to the drive this year or, conversely, to blame Chou for the unpopular move. Either way, to identify Chou with the down-to-the-countryside program does not enhance his popularity with young people.

It is a select group of Chinese leaders who are directly quoted by the media—Mao, occasionally Chiang Ching, national agricultural hero Chen Yung-Kuei, and now Chou. The honor carries with it certain hazards. Contradictory policies are often carried out in Mao's name, and he is sometimes quoted out of context in potentially embarrassing ways. It would not be surprising if the same fate befalls the premier. [redacted]

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Stasis on the Subcontinent

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For months China has indicated an interest in moving toward normal relations with India and Bangladesh. The Chinese have engaged in diplomatic exchanges with New Delhi with more frequency and cordiality and have refrained from overly critical public comment on Indian and Bengalee policies. At the same time, Peking apparently has sought to nudge its close ally, Pakistan, toward maximum flexibility in its dealings with Dacca and Delhi.

Aside from this warming of the atmosphere between Peking and Delhi, Chinese diplomacy in the subcontinent has had little effect. The India-Pakistan-Bangladesh impasse is as impervious to Peking's diplomacy as it is to anyone's. China has been unable to capitalize significantly on Delhi's suspicions of Moscow, and there is scant prospect for an early breakthrough.

Peking, nevertheless, has not deviated from its plan. While Foreign Minister Chi Peng-fei was in Karachi last week, Pakistani President Bhutto said publicly in Chi's presence that Peking will "resolutely and unswervingly" support Pakistan's position on a subcontinent settlement "in the months to come." Since spring, China has twice made much of long-standing Sino-Indian border differences. A long letter by Chou En-lai detailing China's position on the frontier, first publicized in 1962 during the Sino-Indian border war, was republished and put up for public sale earlier this year.

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It does not seem likely, that the Chinese believe they can generate more movement on the subcontinent by hardening their position on the border;

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In fact, the Chinese may in part be responding to the Soviets' publication in January of India's long-standing border claims.

If the triangular stalemate on the subcontinent is broken, Sino-Indian rapprochement should be swift; Peking has larger interests at stake, and issues like the disputed border, which Chinese spokesmen have long described as peripheral, could be quickly resolved.

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More Than Just a Bank

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In China, the People's Bank plays a vital role in the planned economy. Its direct control over the flow of state funds and its virtual monopoly over credit and investment help ensure compliance with the state plan.

An article in the 1 June issue of the English language weekly, *Peking Review*, spells out in unusual detail the pervasiveness of the bank's supervisory role. The article notes that a county bank employee who worked out a loan for an oil refinery not only reviewed the plant's production and sales record, but also suggested improvements in the plant's accounting and management. A local agent of the People's Bank, according to the story, transformed a poor farming unit into a prosperous one by financing several side-line production endeavors that raised the income of the collective and its individual members.

Chinese domestic media do not often discuss the role of the People's Bank; one reason could be that many of the bank's activities encroach on areas normally reserved for the party. The article in the *Peking Review* suggests that the People's Bank, with its "thousands of branches," has strengthened its authority over economic matters. The Cultural Revolution nearly destroyed the party as an institution, and current efforts to reassert party control over all spheres of activity may give rise to new strains in the relations between party officials and local banking authorities.

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Problems in China's Steel Industry

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The output of China's steel industry has not kept pace with the country's industrial and construction needs. As a result, substantial increases in imports of iron and steel commodities, including scrap iron for the steel furnaces and steel-mill products, will be necessary this year. China must also import foreign technology and equipment in order to improve the quality and assortment of products.

Japan has concluded contracts to supply China with about 2.4 million tons of finished steel during 1973—a million tons more than last year. If there is no change in the amounts of steel imported from other countries, China will receive more than 3 million tons of finished steel in 1973, compared with about 2.3 and 2.1 million tons in 1971 and 1972, respectively. Indicating that its dependence on external sources for finished steel is not a short-term problem, China is now negotiating with a consortium of Japanese steel companies on a three- to five-year contract for imports of steel-mill products.

China produced 23 million tons of crude steel in 1972, compared with 21 million tons in 1971, 18 million tons in 1970, and 15 million tons in 1969. The decline in the rate of growth of steel output in 1972 compared with the two years immediately preceding probably was because of the greater difficulty of introducing new capacity in 1972. In the immediately preceding years, additional output had been gained by re-employing capacity idled by the Cultural Revolution and by putting into commission new capacity that had been delayed by the Cultural Revolution. Furthermore, numerous exhortations in the Chinese press to increase iron ore mining suggest that major investments will be necessary if this section is to keep up with the increases required in basic steel production.

China's steel industry suffers from shortages of domestic scrap iron, a common condition in developing countries. Consequently, heavy reliance is placed on blast-furnace pig iron to keep the steel furnaces supplied. Extensive blast furnace operation, in turn, has strained the capabilities of the iron ore mines. As a result, China, a net exporter of pig iron during the years up to 1970, has become a net importer of that commodity. Last year, China also imported at least 350,000 tons of scrap iron, and it seems likely that an even larger amount, perhaps twice as much, will be required in 1973. This year, China will import scrap iron from the US for the first time. US scrap dealers have already contracted to sell China over 100,000 tons, and by the end of the year the total is likely to be higher.

As indicated by the quality and assortment of China's steel imports, the product mix turned out by the domestic industry is becoming steadily less suitable for China's increasingly complex economy. China's modern industries require more

[REDACTED]

varieties and larger amounts of flat rolled thin sheet for transformer cores, tin plate for the food industry, and wide plate for shipbuilding. China's flat rolling facilities consist mostly of low-volume plate and sheet mills without much mechanization. There are very few continuous strip or other complex mills.

China apparently will depend on imports of technology and equipment for major advances in flat steel-rolling facilities. Negotiations are under way with producers of metallurgical equipment in both West Germany and Japan. The Chinese seek an advanced rolling-mill complex capable of producing annually about 3 million tons of hot and cold rolled sheet, including such special products as electrical, galvanized, and tin-coated sheets. The complex, costing about \$300 million, will be the most expensive whole plant China has ever imported and will go a long way toward reducing China's dependence on imported steel.

So far this year, fragmentary economic indicators from China suggest there will be a continued loss of momentum in the growth of the steel industry. Growth in the output of steel announced by selected provinces and cities generally were lower in the first quarter of 1973 than in the same period of 1972. Annual rates of growth in steel output of 10 percent or more probably are no longer possible for China. Moreover, growth rates will be further slowed if the quality and assortment of products is improved. [REDACTED]

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Notes

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NCNA on 20 June identified Ku Mu in his former post as head of the State Capital Construction Commission. This is the first ministerial appointment since December and brings to 13 the number of ministers who have been identified in public. Ku lost his job during the Cultural Revolution, but was rehabilitated and assigned to an unspecified position last December. Despite Ku's return, the real power in the commission may rest with Lai Chi-fa, identified last month as a "leading member" of that organization. Unlike Ku, Lai is a member of the party central committee and thus is the more influential of the two. Lai has been the minister of building construction since 1965.

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Liu Hsiang-ping, wife of deceased politburo member Hsieh Fu-chih, is apparently the new minister of public health. A Japanese news agency reported that Mme. Chou En-lai introduced the new minister at a reception held on 18 June for an American women's delegation. If confirmed, Liu will be the only woman and the sixth civilian among the current ministers.

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After an absence of some seven years, Huo Shih-lien, a veteran party official and the former first secretary of the Shensi provincial party committee, has reappeared as a secretary of the committee. Huo was listed in the job on 8 June 1973, when he attended the preparatory meeting of the Shensi Trade Union Congress; he was later listed without specific title when he attended a banquet on 11 June for a

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visiting North Vietnamese delegation in Sian. Huo's return, and the promotion of Hsiao Chun, another veteran party cadre of pre-Cultural Revolution days, does not substantially alter the Shensi leadership situation since the two top posts are still held by military officers. It is, however, yet another example of the return of party veterans to positions of responsibility.

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CHRONOLOGY

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6-20 June Chi Peng-fei spends 6-10 June in London; 10-14 June in Paris. [redacted]

8-19 June Vice Minister of Communications Kuo Lu visits Tanzania on way home from Zambia. [redacted]

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11 June North Vietnamese party-government delegation headed by Le Duan and Pham Van Dong departs China. Final communique indicates divergences persist on some important issues. [redacted]

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12 June Ku Hsiao-po leaves Peking to become first PRC ambassador to Dahomey. [redacted]

13-14 June Congolese foreign minister stops over in Peking on way home from North Korea. Meets Chou En-lai. [redacted]

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14 June Iraqi minister of health arrives in Peking. [redacted]

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14-17 June Foreign Minister Chi Peng-fei visits Iran; endorses Tehran's defense and regional security policies before departing for Pakistan. [redacted]

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14-21 June Ethiopian minister of commerce and industry visits China. [redacted]

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15-18 June North Korean economic delegation arrives in Peking; economic and technical cooperation agreement signed. [redacted]

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16 June PRC journalists' delegation arrives in Canada. [redacted]

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NCNA identified Wang Yao-ting as Chairman of the China Council for the Promotion of International Trade; the post had been vacant since the Cultural Revolution. [redacted]

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17 June *People's Daily* editorial endorses new Paris communique on Vietnam. [redacted]

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17-19 June Chi Peng-fei visits Pakistan; holds talks with President Bhutto in Karachi. [redacted]

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19 June Propaganda for 11th anniversary of Mao's statement on militia building emphasized education of militia members in class struggle; stress last year was on military training. [redacted]

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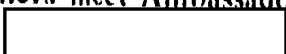
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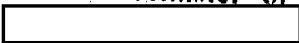


19 June Chiang Ching, Yao Wen-yuan, and others meet Ambassador Bruce
and visiting American basketball teams. 

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20 June President Traore of Mali arrives in Peking. 

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Ku Mu identified as Minister of the State Capital Construction
Commission. 

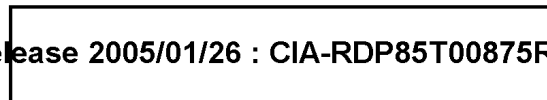
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